

DEGREES OF CHANGE

Financial Statements

June 30, 2019 (Audited) and 2018 (Reviewed)

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Independent Auditor's Report

Board of Directors
Degrees of Change
Tacoma, Washington

We have audited the accompanying financial statements of Degrees of Change (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

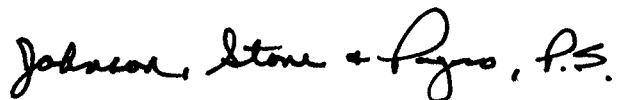
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Degrees of Change as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The 2018 financial statements were reviewed by us, and our report thereon dated October 10, 2018 stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements.

Effect of Adopting New Accounting Standard

As discussed in Note 1 to the financial statements, Degrees of Change adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, as of and for the year ended June 30, 2019 and 2018. Our opinion is not modified with respect to this matter.



JOHNSON, STONE & PAGANO, P.S.

October 14, 2019

FINANCIAL STATEMENTS

DEGREES OF CHANGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 (Audited) and 2018 (Reviewed)

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 297,722	\$ 257,811
Accounts and grants receivable	52,587	87,245
Prepaid expenses	<u>85,811</u>	<u>49,397</u>
Total Current Assets	436,120	394,453
FURNITURE AND EQUIPMENT, net	4,176	1,868
OTHER ASSETS		
Act Six program, net	30,483	34,417
College enrollment data software, net	<u>27,685</u>	<u>65,435</u>
Total Other Assets	<u>58,168</u>	<u>99,852</u>
TOTAL ASSETS	<u>\$ 498,464</u>	<u>\$ 496,173</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 7,529	\$ 16,931
Accrued expenses	40,065	22,668
Unearned revenue	<u>19,185</u>	<u>75,710</u>
Total Current Liabilities	66,779	115,309
NET ASSETS		
Without donor restrictions	208,227	177,900
With donor restrictions	<u>223,458</u>	<u>202,964</u>
Total Net Assets	<u>431,685</u>	<u>380,864</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 498,464</u>	<u>\$ 496,173</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2019 (Audited) and 2018 (Reviewed)

	<u>2019</u>	<u>2018</u>
REVENUES WITHOUT DONOR RESTRICTIONS		
Foundation grants	\$ 1,587,716	\$ 887,590
Contributions	205,614	166,055
Other earned income	291,029	216,166
Net assets released from restrictions	<u>202,964</u>	<u>163,147</u>
Total Revenues without Donor Restrictions	2,287,323	1,432,958
EXPENSES		
Program services		
Visualizer	387,737	
Act Six	292,996	196,845
Ready to Rise	508,202	534,182
Consulting		64,579
TacSea Local programs	582,110	293,901
Yakima Local programs	<u>239,033</u>	
Total Program Services	2,010,078	1,089,507
Supporting services		
Management and general	103,584	112,427
Fundraising	<u>143,333</u>	<u>162,973</u>
Total Supporting Services	246,917	275,400
Total Expenses	<u>2,256,995</u>	<u>1,364,907</u>
Increase in Net Assets without Donor Restrictions	30,328	68,051
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	223,457	202,964
Net assets released from restrictions	<u>(202,964)</u>	<u>(163,147)</u>
Increase in Net Assets with Donor Restrictions	<u>20,493</u>	<u>39,817</u>
INCREASE IN NET ASSETS	50,821	107,868
Net Assets at Beginning of Year	<u>380,864</u>	<u>272,996</u>
NET ASSETS AT END OF YEAR	<u>\$ 431,685</u>	<u>\$ 380,864</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019 (Audited) with Comparative Totals for 2018 (Reviewed)

	Program Services					Supporting Services			Total Expenses 2019	Total Expenses 2018	
	Visualizer	Act Six	Ready to Rise	TacSea Local Programs	Yakima Local Programs	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and benefits	\$ 90,004	\$ 176,637	\$ 236,177	\$ 381,590	\$ 192,291	\$ 1,076,699	\$ 45,575	\$ 124,422	\$ 169,997	\$ 1,246,696	\$ 752,078
Program activities and materials		62,251	94,049	46,915	13,638	216,853		31	31	216,884	121,751
Operations	579	6,794	5,469	11,569	4,989	29,400	14,703	2,115	16,818	46,218	29,219
Facility	9,905	12,647	11,734	76,944	1,050	112,280	11,838	7,336	19,174	131,454	58,618
Equipment and technology	5,047	16,835	19,765	14,722	9,269	65,638		4,576	4,576	70,214	59,691
Travel	54	10,542	9,179	6,607	7,246	33,628	292	1,222	1,514	35,142	24,649
Meetings and training	4,541	1,082	1,407	2,878	2,050	11,958	5,409	1,156	6,565	18,523	31,292
Consulting and contracts	259,951	2,193	109,119	40,885	8,500	420,648	25,767	2,475	28,242	448,890	241,928
Depreciation and amortization	17,656	4,015	21,303			42,974				42,974	45,681
TOTAL	<u>\$ 387,737</u>	<u>\$ 292,996</u>	<u>\$ 508,202</u>	<u>\$ 582,110</u>	<u>\$ 239,033</u>	<u>\$ 2,010,078</u>	<u>\$ 103,584</u>	<u>\$ 143,333</u>	<u>\$ 246,917</u>	<u>\$ 2,256,995</u>	<u>\$ 1,364,907</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2018 (Reviewed)

	Program Services				Supporting Services			Total Expenses 2018	
	Act Six	Ready to Rise	Consulting	TacSea Local Programs	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 119,429	\$ 226,907	\$ 37,175	\$ 216,072	\$ 599,583	\$ 41,547	\$ 110,948	\$ 152,495	\$ 752,078
Program activities and materials	34,694	60,803		26,254	121,751				121,751
Operations	9,454	1,535	1,704	2,106	14,799	10,740	3,680	14,420	29,219
Facility	8,704	13,139		11,398	33,241	21,648	3,729	25,377	58,618
Equipment and technology	8,489	13,080	1,092	11,869	34,530	24,836	325	25,161	59,691
Travel	6,531	5,546	3,332	7,795	23,204	467	978	1,445	24,649
Meetings and training	1,358	4,309	1,496	2,607	9,770	4,359	17,163	21,522	31,292
Consulting and contracts	750	189,397	1,001	15,800	206,948	8,830	26,150	34,980	241,928
Depreciation and amortization	7,436	19,466	18,779		45,681				45,681
TOTAL	<u>\$ 196,845</u>	<u>\$ 534,182</u>	<u>\$ 64,579</u>	<u>\$ 293,901</u>	<u>\$ 1,089,507</u>	<u>\$ 112,427</u>	<u>\$ 162,973</u>	<u>\$ 275,400</u>	<u>\$ 1,364,907</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 (Audited) and 2018 (Reviewed)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 50,821	\$ 107,868
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	42,974	45,681
(Increase) decrease in assets		
Accounts and grants receivable	34,658	(27,126)
Prepaid expenses	(36,414)	(45,100)
Increase (decrease) in liabilities		
Accounts payable	(9,402)	7,373
Accrued expenses	17,397	3,681
Unearned revenue	(56,525)	46,125
	<u>43,509</u>	<u>138,502</u>
Net Cash Provided by Operating Activities		
	43,509	138,502
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(3,598)	
Acquisition of college enrollment data software		(46,053)
	<u>39,911</u>	<u>92,449</u>
NET INCREASE IN CASH		
	39,911	92,449
Cash at Beginning of Year	<u>257,811</u>	<u>165,362</u>
CASH AT END OF YEAR	<u>\$ 297,722</u>	<u>\$ 257,811</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 (Audited) and 2018 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Degrees of Change (the "Organization") is a Washington nonprofit corporation. The purpose of the Organization is to develop and provide leadership training, college scholarships and support for college access and success and career development services. The Organization's funding is received under grants with local agencies, from program service fees and donations.

Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this accounting method, revenues are recognized in the year earned, support is recognized in the year in which it is unconditionally promised and expenses are recorded in the year incurred.

Degrees of Change is required to report information regarding its financial position and activities according to two classes of net assets based on the absence or existence and nature of donor-imposed restrictions as follows:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Degrees of Change pursuant to those stipulations or that expire by the passage of time and net assets subject to donor-imposed stipulations that they be maintained in perpetuity by Degrees of Change. The Organization does not have any net assets that a donor has stipulated to be maintained in perpetuity.

Cash

For purposes of the statements of cash flows, the Organization considers cash to be cash on hand and in checking and savings accounts.

Contributions, Accounts and Grants Receivable

Contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor imposed restrictions. Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate using the U.S. Treasury rates corresponding to the period in which the contribution is to be received.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 (Audited) and 2018 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, Accounts and Grants Receivable (Continued)

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reported as a transfer to net assets without donor restrictions (restrictions released) in the statement of activities. Contributions of cash or other assets that are restricted to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed into service.

Grant revenue and the related receivable are realized when unconditionally promised. Grants received with conditions are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Management considers accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If an amount becomes uncollectible, it will be charged to operations when that determination is made. All accounts and grants receivable are current at June 30, 2019.

Furniture and Equipment

Furniture and equipment are recorded at cost when purchased or at fair value when donated; the recorded cost is capitalized with depreciation provided over the estimated useful lives (ranging from 3 to 7 years) of the respective assets using the straight-line method when the cost or fair value exceeds \$1,000.

Other Assets

During the year ended June 30, 2012, the Organization purchased the rights for the Act Six program that it developed over several years from another nonprofit organization, Northwest Leadership Foundation ("NLF"). During the year ended June 30, 2015, the Organization began to internally develop a college enrollment data software program that was placed into service during the year ended June 30, 2016. These costs are amortized using the straight-line method over 15 years for the Act Six program and over 3 years for the software.

Amortization expense was \$41,684 and \$44,790 for the years ended June 30, 2019 and 2018, respectively.

The estimated aggregate amortization expense for subsequent years is as follows:

Year ending June 30, 2020	\$ 26,011
2021	9,542
2022	3,933
2023	3,933
2024	3,933
Thereafter	<u>10,816</u>
	\$ <u>58,168</u>

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 (Audited) and 2018 (Reviewed)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned Revenue

The Organization's unearned revenue reflects amounts received for events or activities that will occur or be provided and the revenue earned in the following fiscal year.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update requires the presentation of expenses by nature and by function, changes to the presentation of net asset classifications and disclosure of information about liquidity and availability of financial resources. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through October 14, 2019, the date the financial statements were available to be issued, and determined that no events have occurred that require disclosure.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 (Audited) and 2018 (Reviewed)

NOTE 2 - CONCENTRATION OF CREDIT RISK

Cash includes cash on deposit with a financial institution. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. At June 30, 2019, the Organization's cash balances at this institution exceeded the insured amounts by \$45,516.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash	\$ 297,722	\$ 257,811
Accounts and grants receivable	<u>52,587</u>	<u>87,245</u>
Total Financial Assets	350,309	345,056
Less financial assets restricted by donors	<u>223,458</u>	<u>202,964</u>
Financial Assets Available to Meet General Expenditure Needs	\$ <u>126,851</u>	\$ <u>142,092</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 9,830	\$ 6,232
Less accumulated depreciation	<u>5,654</u>	<u>4,364</u>
	\$ <u>4,176</u>	\$ <u>1,868</u>

Depreciation expense was \$1,290 and \$891 for the years ended June 30, 2019 and 2018, respectively.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 (Audited) and 2018 (Reviewed)

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

The balance in net assets with donor restrictions as of June 30, 2019 and 2018 consisted of foundation grant funds or promises to give that are to be used to operate specific programs. The nature of net assets with donor restrictions is as follows:

	<u>2019</u>	<u>2018</u>
Donor-restricted as to purpose	\$ 150,958	\$ 187,964
Donor-restricted as to time	<u>72,500</u>	<u>15,000</u>
	<u>\$ 223,458</u>	<u>\$ 202,964</u>

NOTE 6 - OPERATING LEASES

Beginning July 26, 2015, the Organization leased office space under two noncancelable leases which expired in June 2018. The combined monthly base rent was \$1,984. Beginning in July 2018, the Organization signed a new lease with a base rent of \$5,900, with a 3% increase each year until the lease terminates in June 2021. Total rent expense for the years ended June 30, 2019 and 2018 was \$83,901 and \$32,165, respectively.

Future minimum lease payments of the noncancelable operating lease as of June 30, 2019 are as follows:

2020	\$ 72,924
2021	<u>75,112</u>
	<u>\$ 148,036</u>

NOTE 7 - RETIREMENT PLAN

The Organization has a 401(k) retirement plan that allows employees who have met certain eligibility requirements to contribute part of their pay to the plan. The Organization matches employees' contributions based on a percentage of salary contributed by participants. The Organization's contribution expense for the years ended June 30, 2019 and 2018 was \$36,480 and \$19,965, respectively.

NOTE 8 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility expenses, which is allocated on a square footage basis, as well as salaries and benefits, activities and materials, operations, equipment and technology, meetings and training, depreciation and other, which are allocated on the basis of management's estimates of time and effort.